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VECO - Veeco MOCVD Transaction Conference Call

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OVERVIEW

VECO has purchased Emcore Corporation's TurboDisc Metal Organic Chemical Vapor Deposition (MOCVD) equipment business. The acquisition strengthens VECO's position in the compound semiconductor market, as VECO is now uniquely able to provide one-stop shopping for epitaxial deposition solutions, both MOCVD and MBE. VECO paid \$60m in cash for the net assets of the MOCVD business of Emcore. Q&A Focus: GM, OPEX, MOCVD.

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CORPORATE PARTICIPANTS

Debra Wasser

*Veeco Instruments Inc -
VP, Corporate Communications & Investor Relations*

Edward Braun

Veeco Instruments Inc - Chairman & CEO

Jack Rein

Veeco Instruments Inc - EVP, & CFO & Secretary

CONFERENCE CALL PARTICIPANTS

Brett Hodess

Merill Lynch - Analyst

Byron Walker

UBS Warburg - Analyst

Martin Teng

Needham & Co. - Analyst

PRESENTATION

Operator

Good day everyone and welcome to this Veeco conference call. Today's conference call is being recorded. For opening remarks and introductions, I would like to turn the conference over to Vice President of Investor Relations, Ms. Debra Wasser. Please go ahead, ma'am.

Debra Wasser - *Veeco Instruments Inc - VP, Corporate Communications & Investor Relations*

Thank you. Welcome to our conference call reviewing Veeco's purchase of Emcore's TurboDisc MOCVD business. I am Debra Wasser, Vice President of Investor Relations. Joining me for today's call are Ed Braun, our Chairman and CEO and Jack Rein, our Chief Financial Officer. Our news first wire at 4.30 pm this afternoon. However due to a radar problem at Time Warner, our veeco.com website is temporarily down. Please check again later as we have posted a copy of the presentation explaining this transaction for you use in reference at a later time. This call is being recorded by Veeco Instruments and is copyrighted material. It cannot be recorded or rebroadcast without Veeco's expressed permission. Your participation implies consent to our taping to the extent this call discusses expectations about market conditions, market acceptance and future sales of the company's products, future earnings expectations or otherwise made statements about the future. Such statements are forward-looking and are subject to a number of risks and uncertainties that could

cause actual results to differ materially from the statements made. These factors are discussed in the business description and management's discussion and analysis sections of the company's report on Form 10-K and Annual Report to shareholders. During this call, management may address non-GAAP financial measures. Information regarding such non-GAAP financial measures, including reconciliation to GAAP measures of performance are included in our quarterly earnings releases and available on our website. This call is being web-cast live at the veeco.com website and will be available for replay and archived for future reference. The company does not plan to update the information on this web-cast once it has been archived. I would now like to turn the call over to Ed.

Edward Braun - *Veeco Instruments Inc - Chairman & CEO*

Thank you, Deb. Good afternoon. We are very pleased to announce an important technology acquisition. Veeco announced today that it has purchased EMCORE Corporation's TurboDisc MOCVD Equipment business. Combined with Veeco's Molecular Beam Epitaxy business, MBE business, the acquisition makes Veeco the only company that provides both key compounds semiconductor epitaxy of deposition technologies. Emcore's MOCVD revenue was 51.1m for the trailing 12 months ending June 30, 2003. The ability to provide complimentary MBE and MOCVD technologies to our customers will enable Veeco to address the full range of applications requiring the high-performance aspects of compounds semiconductor technologies, which include lower power, higher frequency and light emitting characteristics. MOCVD tools are particularly well suited for the critical first step in the epitaxial growth of high-speed electronic wireless and optoelectronic compound semiconductor materials, frequently employed in advanced wireless telecommunication and rapidly growing high brightness light-emitting diodes for a back lighting applications. Veeco paid \$60m in cash for the net assets of the MOCVD business of Emcore, the transaction also includes a two-year earn out feature that would require payment of up to an additional \$20m if future revenue targets are achieved. The purchased MOCVD business includes the assets necessary for engineering design and manufacturing of the MOCVD TurboDisc systems business and includes the business units' 80,000 square foot manufacturing facility and application laboratory located in Somerset, New Jersey, as well as Emcore's significant MOCVD intellectual properties. It is expected that approximately 120 employees and the management of Emcore's TurboDisc division will become employees of Veeco. Emcore is a

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recognized leader in the MOCVD production systems area with over 500 TurboDisc reactors shipped worldwide.

TurboDisc reactors are used in the growth of III-V compounds for numerous compound semiconductor applications, including data and telecommunications modules, cellular telephones, solar cells, and the Emcore's model GaNzilla production systems are the recognized leading system in growing gallium nitride-based devices, most notably green, blue and white high brightness LEDs used in backlighting wireless mobile devices, and automotive applications. I commented in the press release that this acquisition strengthens Veeco's position in the compound semiconductor market as we are now uniquely able to provide one-stop shopping for epitaxial deposition solutions, both MOCVD and MBE. The MOCVD market is twice the size of the MBE available market. So, this is quite an important addition. Emcore's MOCVD business is a good fit with Veeco's acquisition criteria that is they've a history of technology leadership and innovation, they are a complementary technology for an existing Veeco market, they have a leading market position, a very strong R&D capability and high market growth potential. We believe that Emcore's MOCVD business will be accretive to Veeco on a cash basis by the second quarter of 2004. In addition, the MOCVD strengthens our existing compound semiconductor and wireless telecommunications position and permits penetration of the rapidly emerging LED market opportunity. A market research firm strategies unlimited, projects that the gallium nitride LED market will grow a 24%, a compound growth and reach the \$4b forecasted size by the year 2007. All the semiconductor, compound semiconductor market device size today is about \$9b. A market smaller than silicon but growing more rapidly. The acquisition of Emcore's MOCVD business is an important extension of our technology and a further step towards achieving critical mass for Veeco. The transaction is sensible to both sides. It allows Veeco to focus on growing MOCVD equipment sales, which complements our wireless MBE activity in St. Paul, while Emcore concentrates on the growth of their materials device business and their joint venture with GE lighting. The transaction includes a five-year strategic equipment supplier agreement between Veeco and Emcore, as Emcore becomes an important Veeco customer.

We expect to grow Veeco's TurboDisc MOCVD sales in line with the equipment market growth, which is forecasted to have a 12% to 15% a year growth rate compounded going forward for gallium nitride deposition equipment to allow us to reach a forecasted \$80m size for MOCVD by 2007, which would complement out expected \$50m size in Molecular

Beam Epitaxy, allowing for a total of about a \$130m of forecasted equipment for compound semiconductor revenue by 2007. We believe we can gain market share versus Aixtron, a German company, who were competitor in MOCVD, on the strength of superior product coming from TurboDisc, combined with a 225% Veeco worldwide sales and service support organization, and a much broader product line coming from Veeco serving the compound semiconductor industry. These strategic partnership and joint development of process development in new products with Emcore, we think is a good model for our other customers in this emerging LED industry, to allow the industry to progress from the current customer pattern of buying equipment and then often developing their own process, modifying equipments themselves frequently without the support of the equipment supplier, which slow we've shown with customer's production ramp on new products. This too removed from their equipment supplier base. This is sort of an aged 1970 version of supplier management and is very much countered to the successful rapid time to market model practice by today's semiconductor data storage and other telecom wireless customers, which have evolved over time. We think Veeco can help this evolution as we have elsewhere by investing in process development labs for MBE and MOCVD and by working directly with our key customers on strategic technology roadmaps as we have successfully in data storage. Emcore's equipment revenue as I commented was \$51m on a trailing basis, approximately one-to-one book-to-bill. So our purchase price is approximately 1.27 times the trailing sales assuming a portion of the Internet.

We think the current device market of Gallium nitride electronic devices and high brightness LED's has stabilized having had a positive growth in 2003 and is a historic of a higher growth forecasted 24% compound growth cycle, which is just beginning and is, expected to reach a \$4b upsize by 2007. The equipment market as you would expect, slightly lags the device growth and is currently stable with orders starting to increase. Revenues are flattish there is the high Asia-Pacific and China content to recent orders. And so we expect longer revenue recognition in the quarters of 2004 and some lag between the order build up which we are currently starting to experience and the revenue - we expect revenue to increase modestly in each quarter of 2004. For MOCVD we expect the December quarter will be up in orders from the trailing run rate, but down in revenues based on a weak September booking quarter and the fact that this will be a truncated quarter largely in November and December with some SAB 101 and purchase accounting adjustments. We think the transaction will be \$0.01 or \$0.02 dilutive on an

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operating basis for Q4 results. We're not yet providing overall 2004 guidance but we expect the transaction would be neutral to our first quarter, the March quarter of 2004 and it will be accretive to the second quarter by about \$0.02 and accretive to the year 2004 and significantly accretive to the year 2005. Jack will later further go through some of the financials. There is, as Debra mentioned a web site with about some 20 slides, which give you some additional information.

Let me highlight some of the information that is on the web site and then I'd ask Jack to review the financials. The acquisition does increase Veeco's total available market to \$230m in epitaxy equipment from a current size of about - current time of 60m and that's again because MOCVD has a market size that's too actually MBE market size. Epitaxy is the first critical step of wafer fabrication in wireless and telecom and is considered to be the highest value added process in wafer fab for wireless and telecom. Ultimately determining device functionality and performance. There is also a slide that shows you all of the films that are able to be deposited by MOCVD and by MBE combination and highlights the uniqueness of the Emcore-Veeco combination as the only supplier of both MBE and MOCVD together. There is a slide outlining the transaction, which Jack will go through. There is a customer list that shows that the combined Emcore -Veeco transaction adds both to our telecom device customers, such as Motorola, RF Micro, Sharp, Alpitel and Infineon who both Veeco and Emcore currently serve and in addition provides a new customer base to Veeco, GELcore, Lumilex (ph) , Ospran (ph) , Samsung, gallium nitride customers served by Emcore through MOCVD, but not currently served by Veeco. So increases our customer base in letting us serve a larger worldwide epitaxial base. There are some presentations on white light in general that show you that the blue, green, and red LEDs are important in permitting the integration of white light for the observer and there is a section that takes you through the applications for high-brightness LED, which are largely for back lighting support of electronics, automotive applications, both dashboard and tail lights, signs in stadiums, electronic signals - none of us are very far from a traffic light near our home or office that is red LED, special illumination and in the future potential solid state lighting that has a very large potential of incandescence lamps as the costs of LED decline. There is a chart that shows the compound growth rate of compound semiconductor going out to account the year '06, when it achieves the \$14b size, which is the aggregate of laser diodes, high-brightness LEDs and wireless ICs. The highest growth area in the market is really the LED segment itself, which is growing at 24% least on a compound basis. I apologize to

those whose websites are not up, but if you can access and in the future I think there is some useful information. So in summary, this creates a global leader in compound semiconductor equipment and it creates, Veeco is the only provider of MBE and MOCVD. It addresses the full range of wireless and telecom in LED applications, gives us access to a high-growth lighting opportunity in the future and is accretive on a cash basis by Q2 of '04. At this point, I think I will stop and let Jack go through some of the financials.

Jack Rein - Veeco Instruments Inc - EVP, & CFO & Secretary

Thank you Ed. I'll review selected financial information regarding the Emcore TurboDisc business. So it will be useful to look at the segment breakout for the trailing 12 months ended June 30, 2003 and can get these numbers to the fiscal year September 30, 2002. The Emcore equipment business for the trailing 12 months June 30, '03 had sales of \$51m with a 36% gross margin. This compares to fiscal December 30 of '02, sales were approximately \$36m and a 28% gross margin. Improvement relates to market acceptance of their automated tool called the GaNzilla and increase in mock demand for equipment for LED. Operating spending were \$16.5m for the trailing 12 months June 30, '03 versus \$28.4m in the fiscal year September 30, '02 Emcore took significant cost reduction steps in March 2002 quarter, which they reduced their employment by 36%. Veeco feels that operating spending for this business has developed synergies will be further reduced by \$2m to \$4m on an annual basis. These reductions will come from a lower number of required employees and other reduced spendings such as corporate infrastructure, cost allocation. Operating profits for the June 30, '03 trailing 12 months was \$1.9m was 3.7% sales compared to a loss of \$18m at fiscal September '02. The \$20m improvement was due to approximately \$6m of sales volume impact approximately \$2m of mix improvement overhead spending reductions and approximately \$12m in reduced operating spending. We expect GAAP breakeven to be about \$85m revenue quarterly level for the combined Veeco and TurboDisc systems business. As a result of the guidance, we expect the December quarter will be up in orders as I had mentioned for the TurboDisc business from the trailing run rate, but down in revenues since it is a two-month quarter for Veeco and TurboDisc inclusion. It should be noted that there will be a normal purchase accounting adjustment that will result in in-process, R&D charge, there will also be capitalization of inventory and lots of revenue and you get the profit under SAP 101 which again in normal purchase accounting adjustments. We will have an independent firm

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to perform the inception of these categories of intangible assets and therefore we cannot give a specific number at this point of the end process on the charge. We would have what are expected to be in the range of \$3m to \$5m. We expect amortization to be in the \$2m to \$3m range annually. We have not yet estimated the purchasing accounting impact of; as I said of SAB 101 was on inventory capitalization. Again, these are very preliminary estimates and we will have further guidance on our fourth quarter earnings conference call. We have not yet provided guidance on 2004 for Veeco, as we only give guidance for one quarter at a time at this point, but as of now we expect the fourth quarter of 2003 impact for this transaction to be \$0.02 dilutive before purchase accounting adjustments. We expect the transaction to be neutral to our first quarter of 2004 EPS, again before purchase accounting adjustments and amortization. And we believe that the business will be slightly accretive in the second quarter of 2004 and for the balance of 2004. As Ed has indicated the purchase price is \$60m in cash, subject to working capital adjustments based on the actual December 3, Emcore TurboDisc balance sheet. There is also an earn-out feature that caps at \$20m based on revenue targets, and that \$20m earn-out feature can be paid either in cash or stock at Veeco's option. With regards to assets acquired, they are expected to be in the \$30m to \$35m range including accounts receivable, inventory, property, plant and equipment, which includes an 80,000 square foot building in Somerset, New Jersey. We'll now return to Ed for some additional comments and your questions.

Edward Braun - Veeco Instruments Inc - Chairman & CEO

Thank you Jack. I would also comment that this technology addition complements our strategy of multi-product and multi-market strategy, and in fact if you take the trailing quarter rate of Veeco for this 12 months, which is about \$275m and the trailing order rate of Emcore TurboDisc which is also about \$50m, so as to create a pro forma pie chart which would then permit you to look at market concentrations of the combined \$325m. You would see that Data storage is 30% of our total, about \$97m. The combination of semiconductor and wireless, compound semiconductor and semi - is about \$123m about 38% of the total, and scientific research a \$105m, 32% of the total. So staying fairly true to our one-third, one-third, one-third data storage, semiconductor, compound semiconductor and scientific research, multi-market strategy that we've adhered to, that has been helpful in offsetting the volatility of individual markets. So a good fit for that strategy, but a very nice

extension to our basic technologies. Operator, I think we'll pause here and we'll be pleased to take some questions.

QUESTIONS AND ANSWERS

Operator

Thank you. The next question and answer session will be conducted electronically. If you would like to ask a question, please press the star key followed by the digit one on your telephone. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. We will proceed in the order that you signal us, and we'll take as many questions as time permits. Once again, please press star one on you telephone to ask a question. If you find that your question has been answered, you may remove yourself by pressing the pound key. Now we will pause just a moment to everyone an opportunity to signal us. And our first question comes from Brett Hodess of Merrill Lynch.

Brett Hodess - Merrill Lynch - Analyst

Good afternoon. Ed, I got a couple of questions. On the fundamental side, just to be clear, MOCVD and MBE are complementary because they can do some different of types of epilayers, typically I think MOCVD being more on the, as you said, nitride based types of products and MBE being more on the gallium arsenide base, is that correct?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

Yes, Brett. That's a good distinction. I probably should have been clearer on that, they are indeed complementary and - although their technologies operate differently they tend to be seen as having a focus on a particular material set. And so as you have described gallium arsenide is almost always done by MBE, gallium nitride by MOCVD and the beauty of having both is that, we now, the supplier Veeco no longer has to be a technology bigot in sort of picking a technology that it tries to spread over the variety of semiconductor compounds. And rather the customer now has the freedom of picking which epitaxial system he most prefers depending upon his material set. So the customer would find this a very easy way for him to have one-stop shopping, and buy either MOCVD or MBE according to the material set that he is depositing.

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Brett Hodess - *Merill Lynch - Analyst*

Got it. And then next question I wanted to ask was when you look at the customers at this stage of the game, are there - can you identify customers that would buy both and therefore allow you to leverage your sales force more effectively in distribution etcetera?

Edward Braun - *Veeco Instruments Inc - Chairman & CEO*

Yes, in the particularly above that - I think that's true both in the telecom device area as well as the LED area. Telecom device area for example is that if I go down the list of customers who are currently customers to both Emcore and Veeco it's Motorola, RF Micro Devices, Sharp, Alcatel, Infineon. So some very large people who buy and use MBE and MOCVD side-by-side. The other benefit here is, in today's world what if these technologies are clusterable and can be combined with PVD and IBD, other Veeco technologies that are available in Veeco cluster tools. So, the other expansion of the business is that these same customers can now add additional Veeco technologies in clusterable modules. True for both the electronic device manufacturer, one name as I've mentioned or the LED manufacturers who tend to start light by being Gallium Nitride or Zinc Oxide or blue-green and white LEDs, people like Lumiledge (, Astorand, and Samsung who again can use the combination of equipments. So, very important for our existing customer base and for a new customer base that we would penetrate.

Brett Hodess - *Merill Lynch - Analyst*

That is going to be my next question about the clusterability, so I'll move on to my last question and so when we are looking at the modeling now, with the trailing 12-month operating expense - gross margin seemed to be 36%, and the operating expenses running 16.5, it sounds like you will be able to take a million or so out of that operating expense run rate per quarter going forward based on what Jack said, but I think that if we look at the most recent results from Emcore, the gross margins were a little lower than that 36% run rate on the turbo disk side of the business, is that correct and since you will be using a lower gross margin run rate going forward?

Edward Braun - *Veeco Instruments Inc - Chairman & CEO*

Well, there - gross margins vary as they do in our systems business from model number to model number within the turbo disk product line, that a range of gross margin

somewhere around the 35% is probably a good aggregate, and I think you are correct as Jack indicated that we see synergies, further synergies of about \$4m a year that are cost savings from operating spending and who have made some significant spending reductions themselves, but I think the advantage of being part of Veeco equipment company allows some additional savings.

Brett Hodess - *Merill Lynch - Analyst*

So if we start off our December quarter using about two-thirds of the quarter run rate for the Emcore business down some from last quarter and we are using for a starting point somewhere in that mid-30% gross margin range in op expenses around the rate that you are at now but, then we ramp them down a little bit going after that for this business, is that the right way to model the fourth quarter?

Edward Braun - *Veeco Instruments Inc - Chairman & CEO*

Yes.

Brett Hodess - *Merill Lynch - Analyst*

Okay, thank you.

Edward Braun - *Veeco Instruments Inc - Chairman & CEO*

Thank you.

Operator

Moving on, we have Martin Teng of Needham & Co.

Martin Teng - *Needham & Co. - Analyst*

Yes, hi I am coming for on behalf of Christina Osmena. One question, what are the transaction costs for the deal?

Jack Rein - *Veeco Instruments Inc - EVP, & CFO & Secretary*

We haven't disclosed those at this point, but they are a couple of million dollars.

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Martin Teng - Needham & Co. - Analyst

Okay, and the MOCVD equipments, can it be used for thin-film heads?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

The thin-film heads - in perpendicular recording which is the next generation of thin-film head, some of the R&D sites in the data storage industry have begun to look at MOCVD as well as MBE for new Oxide films that would give a very high delta R over R magnetic characteristics. Though, I actually do imagine that MBE and MOCVD who are largely wireless today, will find application in data storage

Martin Teng - Needham & Co. - Analyst

Okay.

Edward Braun - Veeco Instruments Inc - Chairman & CEO

And that's another place where the clusterability is very important because, in those applications they absolutely would be combined in a cluster tool with PVD and IVD.

Martin Teng - Needham & Co. - Analyst

Right. What is the average selling price of the double --

Edward Braun - Veeco Instruments Inc - Chairman & CEO

The GaNzilla high production system is about \$1.5m.

Martin Teng - Needham & Co. - Analyst

Okay. And, do you have any backlog number, because for June you have 28.2, has that changed? Do you have any new numbers for the backlog?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

No. I think as we go forward, we will resize the backlog. But you're using the last published information you have, from Emcore's is usable.

Martin Teng - Needham & Co. - Analyst

Okay. And, the gross margins, should it improve going forward, or is that the 30%-35% gross margins you give is the normal?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

No. That's the gross margin of the operation as we have purchased it. The model that we would put together, Jack, I think, has a model, we think that MOCVD should have a target gross margin of 46% and should have a target operating profit of 15% quite similar to what we target for PVD, IVD, and IBE. I would mention that if you go back historically, and look at the history of MOCVD at higher revenue levels, they had mid 40% gross margins.

Martin Teng - Needham & Co. - Analyst

What kind of revenue levels are you talking about for 46% gross margin?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

Jack you mentioned - I am guessing it was sort of --

Jack Rein - Veeco Instruments Inc - EVP, & CFO & Secretary

Let's see - we had - you had, they had a --

Edward Braun - Veeco Instruments Inc - Chairman & CEO

Probably something north of a \$100m a year revenue. At the height of the telecom bubble, as we currently refer to it, you know the Emcore's equipment business I think was running in the 42%-45% gross margin business, when its equipment size was 120m or 130m.

Jack Rein - Veeco Instruments Inc - EVP, & CFO & Secretary

Yeah. It was in 2001, it was a 131 at that fiscal, 131m of revenues with 44% gross margin, 2000 it was 66m in revenues with a 42% gross margin.

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Edward Braun - Veeco Instruments Inc - Chairman & CEO

So, we'd like to achieve those same 45%-46% gross margins going forward, probably at \$70m or \$80m levels.

Martin Teng - Needham & Co. - Analyst

Okay great. One last question if I may. Did you give out any market share data for Emcore?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

In GaNzilla, the production gallium nitride high-brightness LED market which is the high growth area, the Emcore system has probably a 51% or 52% market share against the largest competitor Axetron .

Martin Teng - Needham & Co. - Analyst

Thank you again, and congratulations.

Edward Braun - Veeco Instruments Inc - Chairman & CEO

Thank you.

Operator

And as a reminder, if you do have a question, please press star one on your telephone. We will now go to Byron Walker of UBS.

Byron Walker - UBS Warburg - Analyst

Hi Ed, couple of questions. The \$60m how much of that is intangible assets?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

I indicated that \$30m to \$35m were intangible assets.

Byron Walker - UBS Warburg - Analyst

35. And when you said it is clusterable how are these things compactable or is it kind of thing you can put on your cluster tool? I am not familiar with the Emcore tool. How much engineering do you have to go through that?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

Probably some engineering to get it clusterable on to a books front end or to have a transition module between it and the book's front end. That's what something that has to be done tomorrow, because that I think, the people who will ask for that in the earliest will be the data storage community. And that will be in perpendicular recording which is sort of an '05, '06 event. But I think people will look at it as first as an individual module to develop the films and then want to bring it into manufacturing in a clusterable fashion.

Byron Walker - UBS Warburg - Analyst

The new customers that you pick up with the former Emcore clients, are they clients of yours on other tools like metrology tools or is that cross-selling opportunity?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

Some of them are really brand new names, gallium nitride and so they are cross-selling opportunity for metrology tools.

Byron Walker - UBS Warburg - Analyst

Any an estimated additional cash cause over the next quarter or two as you rationalize the Emcore business?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

Now I think we are going to integrate sales and service, and finance will be our first step and so there will be some synergies and cost savings. But there is no real immediate cash other than the transaction cost.

Byron Walker - UBS Warburg - Analyst

And again, I am not familiar with the tool [Inaudible] what's the competitive advantage over the Extron?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

Really three areas, it has the highest input than the Extron tool, it has better process repeatability, it has a rather unique rotating disc in the substrate and a shower head spray for the gases that provide greater uniformity than the Extron tool. The yields have been higher on the Veeco on the Emcore tool

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and the up time is better and requires fewer cleans than the Extron tool. It is automated, while the Extron tool is not [Inaudible] and it has no automation, and the Emcore tool is more scalable.

Byron Walker - UBS Warburg - Analyst

And than you talked about targets 46%, whereabouts, and profit is about 15?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

Yes.

Byron Walker - UBS Warburg - Analyst

Is that something we can look forward to in the '05 time frame?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

In our lifetime.

Byron Walker - UBS Warburg - Analyst

End of that '05?

Edward Braun - Veeco Instruments Inc - Chairman & CEO

I think we will both be here in the '05 time frame, and by then we will have those gross margins.

Byron Walker - UBS Warburg - Analyst

Great, thanks Ed.

Operator

and it appears there are no further questions at this time. I will turn it back over to you for any closing remarks.

Edward Braun - Veeco Instruments Inc - Chairman & CEO

Okay. Operator thank you. This is a, for us a very exciting addition to technology and to the critical mass size of Veeco,

and we look forward to addressing all of you at the end of the fourth quarter. Thank you.

Operator

That does conclude today's conference. We thank you for your participation.

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